



**Executive Board of the  
United Nations Development  
Programme, the  
United Nations Population Fund and  
the United Nations Office for Project  
Services**

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**Financial, budgetary and administrative matters**

**Revision of the UNDP financial regulations and rules**

**Report of the Advisory Committee on Administrative and  
Budgetary Questions**

**I. Introduction**

1. The Advisory Committee on Administrative and Budgetary Questions has considered the draft report of the Administrator of UNDP on the proposed amendments to the UNDP Financial Regulations and Rules (FRR). During its consideration of these proposals, the Advisory Committee met with representatives of the Administrator who provided additional information and clarification.

**II. Background**

2. The Advisory Committee was informed that UNDP would be presenting amended Financial Regulations for approval and Financial Rules for information, to its Executive Board at its second regular session in September 2011. The proposed amendments are summarized in DP/2011/36. The primary reasons for the proposed amendments are explained in the paragraphs below.

3. *International Public Sector Accounting Standards (IPSAS)*. The General Assembly, through its resolution 60/283 of July 2006, decided to approve the adoption by the United Nations of the International Public Sector Accounting Standards to replace the United Nations System Accounting Standards (UNSAS). The resolution was endorsed by UNDP Executive Board in its decision 2007/10. The existing UNDP Financial Regulations and Rules are based on UNSAS. The amendments are therefore proposed to align UNDP Financial Regulations and Rules with IPSAS. Under IPSAS, UNDP will change from a modified accrual method of accounting to a full accrual method of accounting, with the expected benefit of improved transparency, accountability and comparability.



4. *Cost classification and results-based budgeting.* The Executive Boards of UNDP, UNFPA and the United Nations Children's Fund (UNICEF) in decisions 2009/22, 2009/26 and 2009/20, respectively, requested the three organizations to work together for greater harmonization and improvement in the presentation of the biennial support budget, 2012-2013, as well as work towards the presentation of a single, integrated budget for each organization beginning in 2014. The Advisory Committee notes that, in order to identify best practices, the three organizations undertook a review of existing cost definitions and classification of activities and associated costs, as well as results-based budgeting models and methodologies of selected United Nations organizations and bilateral donors. The exercise culminated in joint proposals that were presented to the Executive Boards in a report entitled "Road map to an integrated budget: cost classification and results-based budgeting". This approach was approved by the Executive Boards of the respective organizations in decisions 2010/32 (UNDP and UNFPA) and 2010/20 (UNICEF). It is indicated that the resulting changes will therefore require an update of the terminology in the corresponding articles of the Financial Regulations and Rules.

5. *Revision of the United Nations Capital Development Fund (UNCDF) annex.* The UNCDF annex to the UNDP Financial Regulations and Rules has been updated to reflect IPSAS related changes and the new cost classifications, as well as being updated to align it with the current UNDP Financial Regulations and Rules.

6. According to the representatives of the Administrator, other changes are also required to bring the UNDP Financial Regulations and Rules up to date. They contain terminology that requires updating to reflect UNDP Executive Board decisions and updated regulations and rules on internal audit, current organizational structures and current business practices of UNDP. In addition, editorial changes have been made, where necessary, for clarity and consistency.

7. The Advisory Committee was informed that, in the interest of achieving greater harmonization with the other United Nations funds and programmes, the amendments were discussed and the principles agreed to with the United Nations Secretariat, UNFPA and UNICEF. Consultations were also held with the United Nations Board of Auditors, the UNDP Audit Advisory Committee, the United Nations Office of Legal Affairs (OLA) and the UNDP Office of Audit and Investigations. The comments of OLA are discussed further in paragraphs 8 to 10 of the present report. The Advisory Committee commends UNDP for pursuing wide consultations with the relevant entities throughout this process.

8. Upon enquiry, the Committee was provided with information showing both general and specific comments from OLA on the proposed amendments to the UNDP Financial Regulations and Rules. In its general comments, the OLA points out that the term "encumbrance" is normally understood to mean a firm liability or right, rather than an anticipated or conditional liability, as defined under Regulation 27.02 of the proposed amendments to the Financial Regulations and Rules. The Administrator, in her response, explains that this term is used in the specific context of UNDP Financial Regulations and Rules, rather than in the general legal context.

9. With regard to the use of the term "personnel", the OLA suggests its replacement with "staff members" or "officials" as agreed in the comptrollers group meetings on the harmonization of Financial Regulations and Rules. In her response, the Administrator explains that the term will nonetheless be

maintained in the UNDP Financial Regulations and Rules for the time being, in the interest of maintaining and highlighting the source and basis for accountability for non-staff personnel. Upon enquiry, the Advisory Committee was informed by the representatives of the Administrator that OLA had expressed appreciation for the feedback provided by the Administrator and had no further comment.

10. The Advisory Committee emphasizes the importance of consulting OLA to ensure overall consistency in the interpretation of terms and definitions included in the amendments. The Committee trusts that OLA's comments and suggestions will continue to be reflected in any proposed amendments.

### **III. International Public Sector Accounting Standards (IPSAS)**

11. As explained in the report of the Administrator, IPSAS are full accrual based accounting standards which measure the financial performance and position of an entity by recognizing transactions when they occur, regardless of cash transfers. The current UNDP Financial Regulations and Rules are based on UNSAS which is a modified accrual accounting method, with elements of both accrual and cash basis accounting. The Committee was provided with information showing the main categories and reasons for the proposed amendments. The amended Regulation 26.01 now requires that all financial reporting be guided by IPSAS, hence the replacement of all UNSAS terms and references with IPSAS compliant terms. In that regard, the term "funds" has been replaced with "financial resources" except when it refers to cash or its equivalent. The concept of "period" has been modified, and all uses of the word have been reviewed and replaced with "budget period" or "financial period" or "programme period". The words "biennial" and "biennium" have been deleted; and, in keeping with IPSAS, the term "financial period" in the Financial Regulations and Rules will always refer to a 12-month period (Regulation 26.05). The term "income", which, under UNSAS, represented cash received on a cash basis or contributions accrued, has been replaced with the IPSAS term "revenue", which represents an enforceable right to receive an asset. The UNSAS concept of "expenditure", which represents the sum of disbursements and unliquidated obligations, has been replaced with the IPSAS term "expense", which represents disbursements, accruals for goods and services received, or the use or impairment of assets. The concept of "obligations" used under UNSAS is now included in the IPSAS term "commitments".

12. The Administrator further explains that under UNSAS, non-expendable equipment refers to physical assets, which are expensed at the time of acquisition. Under IPSAS, physical assets are referred to as property, plant and equipment (PPE), and are capitalized and expensed over the period of their useful life using an appropriate depreciation method.

13. The Advisory Committee notes that the IPSAS Board continues to revise existing standards and to issue new standards to meet emerging needs. It can therefore be expected that additions and amendments will be a permanent feature of the IPSAS environment. The Advisory Committee trusts that UNDP will establish the necessary mechanisms to ensure that its Financial Regulations and Rules remain in compliance with IPSAS, and remain harmonized with those of other United Nations funds and programmes. Considering that the International Public Sector Accounting Standards are principle-based, and do not provide detailed guidelines for their interpretation and application, the Committee expects that the harmonization efforts will be

extended to the formulation of detailed operating guidelines in areas such as depreciation methods and internal audit rules. The Committee further expects that the lessons learned by UNDP will be documented and shared with other organizations.

#### **IV. Cost classification categories and definitions**

14. The Advisory Committee was provided with information showing the cost classification approved by the Executive Boards of UNDP, UNFPA and UNICEF. The categories are:

(a) Development Activities: Costs associated with “programmes” and “development effectiveness” activities that contribute to the effective delivery of development results:

(i) Programmes: activities and associated costs traced to specific programme components or projects, which contribute to delivery of development results contained in country/regional/global programme documents or other programming arrangements.

(ii) Development Effectiveness: the costs of activities of a policy-advisory, technical and implementation nature that are needed for achievement of the objectives of programmes and projects in the focus areas of the organizations.

(b) United Nations Development Coordination: Activities and associated costs supporting the coordination of development activities of the United Nations system.

(c) Management: Activities and associated costs whose primary function is the promotion of the identity, direction and well-being of an organization. These include executive direction, representation, external relations and partnerships, corporate communications, legal, oversight, audit, corporate evaluation, information technology, finance, administration, security and human resources.

(d) Special purpose: Costs of a cross-cutting nature that involve material capital investments, or do not represent a cost related to the management activities of the organization. The Advisory Committee notes that the joint report of UNDP, UNFPA and UNICEF (DP-FPA/2010/1-E/ICEF/2010/AB/L.10) included General Assembly mandated activities in this category. Upon enquiry, the Advisory Committee was informed that the UNDP Executive Board, in its decision 2010/32, decided not to include General Assembly mandated activities in this category because they would be better classified under other categories.

15. The Advisory Committee notes that while cost classification categorizations among the organizations have largely been harmonized, some differences remain, primarily due to the different business models and mandates of the organizations. The Committee expects that further review and consultations will continue in this regard.

16. Subject to its comments expressed in the preceding paragraphs, the Advisory Committee has no objection to the Executive Board’s approval of the proposed amendments to the UNDP Financial Regulations and Rules.